SENATE SHOULD REJECT CRUSADE AGAINST PRIVATE HEALTH

COALITION SENATORS DISSENTING REPORT

Coalition Senators recommend the Senate reject the government's proposal to reduce or scrap private health insurance rebates for millions of privately insured Australians.

This measure is the Rudd government's second strike in two budgets against the important private health component of our mixed public and private health system. It is a blatant breach of one of the most emphatic pre-election commitments of the government, driven by ideology rather than the pursuit of good public health policy.

The overarching policy objective in health funding and service delivery should be to ensure timely and affordable access to quality health care for all Australians. There are not sufficient publicly-funded sources to meet current and projected future demand for acute and chronic care services. To achieve this we need, therefore, the right balance between a strong public and a strong private system.

The private system is underpinned by private health insurance. The more people take out and retain private health insurance over the long term the more affordable it is for everyone and the more additional (private) resources are channelled into our health system.

At present more than eleven million Australians take additional responsibility for their own health care needs taking out private health insurance. At the end of the March 2009 quarter about 9.7 million Australians were privately insured. This was up from a mere 5.7 million Australians with private hospital cover when the last Labor government induced a serious downward spiral in private health insurance participation rates which bottomed out in December 1998.

Under the Hawke and Keating governments, private health insurance participation rates dropped from 63.7% in 1983 down to 33.5% in 1996. It took the Howard government another two years and a number of sound policy initiatives like the Medicare Levy Surcharge, the 30% Private Health Insurance rebate, and Lifetime Health Cover *working together* to turn things around and restore the balance in our health system.

Equally, the impact on private health insurance participation of changes to the Medicare Levy Surcharge thresholds last year and private health insurance rebates this year will not be immediate. Impacts of health policy changes are rarely immediate. Over the past two years private health insurance participation rates have continued to grow (albeit more slowly), as a result of the ongoing impact of the sound private health policy framework put in place by the Howard government. There is no doubt

however that this upward trend will continue to slow and soon start to reverse again, as it did under previous Labor administrations.

In 2007, the Australian Labor Party promised that on coming to government it would not change the existing arrangements for private health insurance rebates introduced by the Howard Government. This promise already has been broken twice in less than two years. This will result in fewer people choosing private health and more pressure on public hospitals.

Indeed, if this measure is passed there is no doubt (and even the government agrees) that it would:

- add further pressure on public hospitals;
- increase the cost of private health insurance for millions of Australians ; and
- result in fewer people with private health cover.

The argument between the government and the Coalition is not about *whether* there will be more pressure on public hospitals and other publicly-funded services. The government has conceded that point. The question is *how much* additional pressure, and whether the government has properly assessed what that impact on public hospitals will be.

More pressure on public hospitals means more people will have to wait for longer to access much needed public hospital treatment.

Given the combined effect of the rebate reduction/abolition and the increases in the Medicare Levy Surcharge in this proposal (if implemented), many privately insured Australians would be left with no option other than to drop or downgrade their level of cover. This in turn would put even more pressure on public hospitals (pressure not accounted for in any of the government's assessments or modelling).

Over time this measure, together with last year's changes to the Medicare Levy Surcharge thresholds, will put further upward pressure on private health insurance premiums. Every increase in premiums over and above what would have happened otherwise will force more people to leave private health or not take it up. This was the experience in the 1980s and 1990s until the Howard Government intervened.

The policy shifts of the Rudd Government are not based on rationality or common sense. They are part of an ideologically-driven crusade against private health and private health insurance and will take Australia back into the downward private health membership spiral experienced under the previous Labor administration between 1983 and 1996.

THOSE WHO DO NOT LEARN FROM HISTORY…

As previously mentioned, private health insurance participation rates plummeted under the Hawke/Keating governments from 63.7% in 1983 down to 33.5% in 1996.

This was with the blessing of the then Labor government, which wanted to see Medicare take over the role played until then by the private health sector.

Rationality only entered Labor's thinking towards the end of its period of government. Alarmed about the impact of 10 years of Hawke and Keating government policy on the private health system, then Federal Health Minister Graham Richardson released a discussion paper on private health insurance reform in December 1993.

In it he observed that[1]:

> *"It was anticipated that the introduction of a high quality universal health car system would result in a significant decline in the number of people with private health insurance. Indeed, the Medicare levy was introduced to help finance the shift of large numbers of people from the private to the public system.*

However:

> *"There was an initial drop* (in private health insurance participation rates) *from 63.7% in 1983 to 50% in 1984. The decline has continued ever since, with particular pressure being put on the participation rate as a result of the recession. From 1984 to 1993 the average decrease in the proportion of the population has been 1.2%. However in the last two years the fall has accelerated to an average of almost 2.2%."* (emphasis added).

And unlike the first-term Rudd Labor government, backed up with ten years of data, then Senator Richardson was acutely aware of the impact reductions in private health insurance participation rates would have on the public hospital system.

Indeed, in his 1993 discussion paper he said:

> "*…declining rates of private health insurance membership have significant implications for the public system.*
>
> *As more people drop out of private insurance the demands on the public system grow. Already there are problems – the most obvious being waiting lists. There are too many people waiting too long, in pain, for vital operations.*"[2]

The discussion paper should be compulsory reading for any member of the Rudd government intent on pursuing an outdated and misguided ideological agenda against private health.

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[1] Reform of Private Health Insurance, A Discussion Paper, Australian Government Publishing Service, December 1993, p.5;

[2] Reform of Private Health Insurance, A Discussion Paper, Australian Government Publishing Service, December 1993, p. 3;

The introduction to the discussion paper includes this damning assessment of the impact of ten years of Hawke/Keating policy on health[3]:

> "*We have now reached the point where private coverage has fallen below 40%. This is not an immediate problem as those who have dropped out are mostly young and healthy. However, as time goes on, an increasing number of older, high users of health services will give up their insurance.* (emphasis added).
>
> *These are people who do not currently use the public system much or at all. Should they come to rely on it, money and resources will have to be found to provide for them.*
>
> *There are also a great many low income families who maintain private health insurance. As premiums continue to rise these people will come under increasing pressure to drop their cover.* ***This gives rise to the real possibility that a flash point will be reached where the gradual decline of the last couple of years becomes an avalanche****. (emphasis added)*
>
> ***This would have critical implications for both the private and public systems and would require significant additional expenditure by governments****." (emphasis added)*

Why does the Rudd government think that going down the same old ideological path again will result in different outcomes?

Senator Richardson was forced by Paul Keating to take his recommendations on how to restore better balance in our health system – including consideration of a Medicare Levy Surcharge – to a Federal ALP Caucus/ACTU working party. This is where his proposals were buried, and it wasn't until the election of the Howard government in 1996 that sensible reform of the private health insurance policy framework was seriously pursued.

The reality is that the Rudd government is already expecting and budgeting for a reduction in private health insurance participation rates.

Indeed, the Rudd government expects the proportion of the Australian population with private health insurance to drop by more than 2.6% over the forward estimates period. However they have hidden that in the budget fine print.

In previous Health and Ageing Portfolio Budget Statements the budget targets and reference points for the 'number of people with private health insurance' were always expressed as both a total number of privately insured and as a proportion of the population (that is as a percentage).

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[3] Reform of Private Health Insurance, A Discussion Paper, Australian Government Publishing Service, December 1993, p. 1;

There is a longstanding convention over many decades to monitor the proportion of Australians with private health cover.

Even during the Hawke/Keating years private health insurance participation rates were measured as a proportion of the population. Indeed it is a more meaningful measure as it takes the effect of population growth into account.

In this budget, and contrary to previous budget papers, the Rudd government no longer includes a percentage target or reference point, but only states the government's expectation that the 'number' of Australians with private health insurance will stay at 9.7 million over the forward estimates.

Even a very conservative assessment of ABS population growth forecasts (using the median projection out of the three available ABS scenarios) means that the government expects the proportion of the population with private health insurance to drop from 44.6% to 42% over the forward estimates period.

This is a worrying trend, and one can only assume that the reason the Rudd government have removed the percentage reference in the budget papers is to hide the fact that they expect it to go down over the forward estimates and they did not want to draw any attention to that.

EXISTING PRIVATE HEALTH INSURANCE REBATES IMPORTANT

The Federal Government's moves on the private health insurance rebate and the Medicare Levy Surcharge in the last two Budgets have shaken the underpinnings of the industry, even if the full premium and participation effects are still to be seen.

The National Health and Hospitals Reform Commission, which reported in June 2009, has also recommended further sweeping changes to private health insurance. We haven't even seen the results of the Preventive Health Taskforce, the Health Technology Assessment Review or the Human Tissue Review, each of which has the potential to make significant additional regulatory changes affecting private health insurance coverage.

It is obvious that under Labor the benign policy settings and relationships that benefited the private health sector in the previous decade are going if not gone.

There is a view once again prevalent in government that the private health sector and private health insurance supplement the public system, that they are optional extras not vital components of our overall health infrastructure. They fail to recognise that the private health sector handles well over half of all Australian hospital procedures, many of these of great complexity. Whether the Rudd government likes it or not, each of these procedures potentially could be done in the public sector at full public cost.

As Professor Ian Harper and Chris Murphy demonstrated as far back as 2004, each dollar spent on the private health insurance rebates saves two dollars of Federal and

State outlays. Incentivising people through the private health insurance rebate system draws private dollars into the system to fund billions and billons of dollars in private hospital care.

AUSTRALIANS WERE CONNED BY LABOR ON PRIVATE HEALTH

The Rudd Labor government does not have a mandate to pursue this measure.

The question of what Labor would do in relation to the private health insurance policy framework in general and private health insurance rebates in particular was extensively canvassed before the last election.

Kevin Rudd and Nicola Roxon, approaching an election from Opposition, considered the issue politically sensitive and material enough to provide strong and clearly worded public and private commitments that a Rudd Labor government would retain the existing rebates.

In a letter to the Australian Health Insurance Association dated 20 November 2007 then Opposition Leader Kevin Rudd wrote:

> *"Both my Shadow Minister for Health, Nicola Roxon, and I have made clear on many occasions this year that Federal Labor is committed to retaining the existing private health insurance rebates, including the 30 per cent general rebate and the 35 and 40 per cent rebates for older Australians."*

As stated in the Prime Minister's letter, that same iron-clad guarantee had been provided by both himself and his then Shadow Minister on 'many occasions'.

In a speech to the Annual Australian Health Insurance Association Conference in Melbourne on 10 October 2007, then Shadow Health Minister Nicola Roxon said:

> *"This is why we have committed to the current system of private health insurance incentives – including the package of rebates, the Lifetime Health Cover and the surcharge.*
>
> *Labor understands that people with private health insurance – now around 9 million Australians – have factored the rebate into their budgets and we won't take this support away."*

When the Coalition had previously dared to question the sincerity of that emphatic pre-election commitment we were accused of running a dishonest scare campaign. This is what the then Shadow Minister for Health and Ageing Nicola Roxon had to say on 26 September 2007:

> *"Federal Labor rejects the Liberal scare campaign around the Private Health Insurance rebates… The Liberals continue to try to scare people into thinking*

> *Labor will take away the rebates. This is absolutely untrue. The Howard Government will do anything and say anything to get elected".*

Of course we now know that this is exactly what has happened for more than two million Australians.

The Howard Government was telling the truth, while Labor conned people into believing that it had changed its ways; that it would no longer be driven by its longstanding ideological agenda against private health.

THE CON CONTINUED IN GOVERNMENT

When the Coalition questioned the newly elected government's commitment to private health insurance, the government accused us of perpetuating the scare campaign. The Parliamentary Secretary for Health and Ageing read the now discredited September 2007 press release into the Hansard record and reconfirmed the Rudd government's commitment to the retention of the existing private health insurance rebates[4].

On many occasions since has the government reconfirmed its commitment to retain the existing private health insurance rebates.

As late as 24 February 2009, confronted with media inquiries about government plans to scrap the private health insurance rebates, Federal Health Minister Nicola Roxon reassured people that:

> *"The Government is firmly committed to retaining the existing private health insurance rebates."*[5]

Yet, during Senate Estimates it was revealed that while Minister Roxon was giving these public assurances, behind closed doors she and other senior members of the government were seeking and obtaining advice on how to progress changes to those private health insurance rebates. 'Firmly committed' to retain the existing rebates in public, while secretly working on plans how to reduce and scrap them.

Minister Roxon first obtained advice from her Department on 12 January 2009[6]. Advice on how to change the rebate had been sought by the Health Minister's office as early as December 2008[7].

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[4] Senator McLucas, Parliamentary Secretary to the Minister for Health and Ageing, *Committee Hansard,* 20 February 2008, p. CA122;

[5] Leo Shanahan, *Scrap health rebate: Treasury,* The Age, 24 February 2009, page 1;

[6] Ms Jane Halton, Secretary of the Department of Health and Ageing, *Committee Hansard,* 3 June 2009, p.CA43;

[7] Mr Eccles, Acting Deputy Secretary of the Department of Health and Ageing, *Committee Hansard,* 3 June 2009, p.CA44;

We also know that Treasury provided advice on means testing the rebate on 20 February 2009 at the request of the Treasurer[8], that the Department of Finance and Deregulation provided advice on the same measure on 22 February 2009[9] and the Prime Minister's Department on 23 February 2009[10].

Yet after all of that was going on within the Rudd Labor government, on 24 February 2009 the Minister for Health and Ageing told Australians that the government remained firmly committed to retaining the existing rebates.

How can anyone believe anything the Rudd government will say about commitments on private health insurance now or in the future?

Dr Armitage, the Chief Executive of the Australian Health Insurance Association put it very succinctly:

> *"It would be difficult to have 100 per cent trust before any budget, given what has happened to us in the last two – particularly this decision…*
>
> *It would be difficult to have 100 per cent trust given that we have such a definitive letter from the Prime Minister, which has now been shredded."*[11]

Mr Michael Roff, Chief Executive of the Australian Private Hospitals Association put it this way:

> *"…these proposals constitute a fundamental breach of promise by the government. This entails reneging on clear commitments that were made not just in the lead-up to the last election but were repeated by a range of senior government figures, from the Prime Minister down, on numerous occasions both in public statements and private meetings since the election.*
>
> *There are now serious concerns within the APHA membership about what further changes may be made in subsequent budgets when commentators concur that substantial cuts to expenditure will be required to meet government spending targets."*[12]

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[8] Mr Nigel Ray, Executive Director, Fiscal Group, Treasury, *Committee Hansard*, 3 June 2009, p.E78;

[9] Dr Ian Watt, Secretary of the Department of Finance and Deregulation, *Committee Hansard*, 28 May 2009, p.F&PA22;

[10] Ms Yael Cass, Acting First Assistant Secretary, Social Policy Division, Department of Prime Minister and Cabinet, *Committee Hansard*, 25 May 2009, p.F&PA72;

[11] Dr Michael Armitage, Chief Executive Officer, Australian Health Insurance Association, *Committee Hansard*, 8 July 2009, CA2;

[12] Mr Michael Roff, Chief Executive Officer, Australian Private Hospitals Association, *Committee Hansard*, 8 July 2009, CA13;

Privately insured Australians and the broader private health sector are indeed being asked to pay the price for the Rudd government's reckless spending sprees since coming to office.

IMPACT ON THE COST OF PRIVATE HEALTH INSURANCE

As a direct result of these changes the cost of private health cover will increase for more than 2.3 million Australians by between 14.3 and 66.7 per cent.

People of all ages with private health insurance in the first income tier will see their rebate reduced by 10 per cent, people of all ages in the second tier by 20 per cent – yet people in the third tier will be treated differently depending on how old they are.

The older you are the steeper the increased cost you will face as a result of this measure.

Those in the third income tier aged less than 65 will see the cost of their health insurance increase by 42.9 per cent. Those in the same tier, 65 years and over but less than 70 years old will see the cost of their health insurance go up by 53.8 per cent, and those 70 years and older will see the cost of their health insurance go up by a staggering 66.7 per cent.

Treasury and Health Department officials have pointed out that there are only a small number of people in these higher categories. But what does that prove? It seems inequitable that older Australians are being hit extra hard.

In any event, these are steep increases in the cost of private health insurance, which come on top of any ordinary increase in private health insurance premiums. In the current economic climate, and given the ongoing impact of last year's changes to the Medicare Levy Surcharge thresholds those premium increases are likely to be higher on average than what they have been in the final years of the Howard government.

Furthermore, while 2.3 million Australians with private health insurance will see a direct, immediate and automatic increase in the cost of their private cover by up to 66.7 per cent, all of the eleven million privately insured Australians will be faced with additional increases in private health insurance premiums as a result of this measure.

Of course any increases in premiums expected by the government as a result of this and last year's measure (and their related impact on the Budget), are conveniently hidden in the contingency reserve. The published budget papers do not include any information on what the government expects to happen to the cost of premiums as a result of this or last year's measure over the forward estimates.

IMPACT ON PRIVATE HEALTH INSURANCE MEMBERSHIP

The government has stated that a total of 40,000 people will drop private cover as a result of this measure. That number is made up of:

- 25,000 people who are expected to drop their hospital and general treatment cover;
- 10,000 people who have hospital and general treatment cover who are expected to keep their hospital cover and drop their general treatment cover;
- 5,000 people with general treatment cover who will drop that cover;[13]

Catholic Health Australia commissioned research by Access Economics which showed that[14]:

> *"Four times more people than predicted by Treasury may go without private health insurance as a result of changes to the private health rebate and Medicare Levy Surcharge...*
>
> (Catholic Health Australia) …*published independent research that shows the Government's new private health insurance changes could result in up to 100,000 people going without insurance."*

Given the way the measures in these Bills are structured, the most rational response for anyone seeking to minimise the additional cost imposed as a result of the reduced (or lost) rebate would be to go for a cheaper policy and to drop general treatment cover. That is to downgrade their level of private health cover. The government has increased the size of the stick for those in Income Tiers 2 and 3 who may want to drop their private cover to avoid the increase in cost of their private health insurance caused by the government's changes to the rebates.

Indeed, Mr Ian McAuley, who was very supportive of the government's proposed measures nevertheless recognised that:

> *"If we were all rational, the most rational response would be to shift to a cheaper policy – the previous witness said it was downgrading, but I would not necessarily call it that – and to drop ancillary cover."*[15]

Yet, the Government has not assessed the impact of this most likely and most rational response of privately insured Australians in those income brackets on the private and public health system at all. This is illustrated by the following exchange during Senate Estimates:

> **Senator CORMANN**—On top of the people that are dropping cover, how many people do you expect will downgrade their cover?

[13] Ms Penny Shakespeare, Assistant Secretary, Private Health Insurance Branch, Department of Health and Ageing, *Committee Hansard*, 3 June 2009, CA73

[14] Report by Access Economics Pty Limited for Catholic Health Australia, *Impact of means-testing the PHI rebate and changing MLS parameters,* June 2009 and Catholic Health Australia, Media Release, *Waiting lists to grow: 216,000 extra public hospital admissions expected*, 12 June 2009;

[15] Mr Ian McAuley, Fellow, Centre for Policy Development, *Committee Hansard*, 9 June 2009, E16;

> **Ms Shakespeare**—The government does not actually expect that people will downgrade their cover as a result of this measure.[16]

This assertion by the government is quite unbelievable and completely irrational.

The consequence is that the government's assessment of this measure underestimates its impact, in particular on public hospital waiting lists.

There are two ways people can go for a cheaper policy:

1) By increasing the level of 'front-end deductible', that is by agreeing to pay a larger out-of-pocket expense at the time of accessing a hospital service in return for a lower premium today; this increases the incentive for a patient to seek admission as a public patient in a public hospital to avoid the increased out-of-pocket expense;

2) By exclusions, that is exclude certain hospital procedures from their private cover, eg heart surgery, orthopaedic surgery or mental health services; if such a service is required by patients having excluded it from their cover they will most likely present at a public hospital;

None of this has been taken into account by the government when assessing the impact of this measure on private health insurance participation rates or on public hospitals.

Furthermore 1.4 million Australians with general treatment cover only have been completely excluded from any assessment of the impact of this measure on the basis that Treasury did not have access to any personal income tax data for that cohort of privately insured Australians.

Finally, the government has been suggesting (after the release of one quarter of membership data) that the Coalition's pessimistic suggestions about private health insurance participation rates after last year's changes to the Medicare Levy Surcharge thresholds had not occurred.

The not so subtle suggestion by the government is that given the Coalition supposedly got it wrong last time, any predictions about membership impacts this year had to be treated with caution.

The Coalition of course had merely pointed to Treasury estimates (initially of 644,000 fewer Australians with private health insurance) when criticising the impact of the government's changes last year to the Medicare Levy Surcharge thresholds.

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[16] Ms Penny Shakespeare, Assistant Secretary, Private Health Insurance Branch, Department of Health and Ageing, *Committee Hansard*, 3 June 2009, CA73

After the Senate eventually passed the twice watered down measure in October 2008, the Coalition pointed out again that the government expected nearly 500,000 fewer Australians to have private hospital cover as a result. This was based on advice provided by the Government during the debate in the Senate.

The Minister for Health and Ageing herself said at the time that there would be 492,000 fewer Australians with private hospital cover as a result of the change. The $740 million in estimated savings over the forward estimates were in fact based (and contingent) on that reduction in the expected number of people with private hospital cover (and taking their private contributions to the health system with them).

Based on one quarter of membership data the Minister for Health has been arguing that this wasn't happening. Some government Senators sought to press this point with witnesses during this inquiry. Yet both Treasury and the Department of Health and Ageing confirmed that the estimated impact of the measure had *"not been revised"* and that (the impact) was *"over the forward estimates period"* and that *"we have had one quarter of data since the measure took effect"*. [17]

In fact, Mr Peter Robinson, Principal Adviser in the Social Policy Division of Treasury said *"it was probably safe to say it was a little bit too early to tell after the first quarter"*[18]. Asked directly whether the government had revised the estimated savings from the changes to the Medicare Levy Surcharge thresholds legislated in October 2009, Mr Robinson's answer was a clear no.

That is, for the purpose of assessing the impact of this measure on public hospitals we have to consider the combined impact of last year's change to Medicare Levy Surcharge thresholds and this year's proposed change to the rebates.

IMPACT ON PUBLIC HOSPITALS

For obvious reasons, the Rudd government is keen to downplay the impact of its broken rebate promise on public hospitals.

The fact that this time around the government recognised any impact on public hospitals at all was an improvement on last year. Indeed, when introducing last year's changes to the Medicare Levy Surcharge thresholds no assessment or modelling was done by the Federal government of the impact of that measure on public hospital demand. Any impact on public hospitals was dismissed as a 'second round effect' not relevant to the consideration of the budget measure at hand.[19]

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[17] Ms Penny Shakespeare, Assistant Secretary, Private Health Insurance Branch, Department of Health and Ageing, *Committee Hansard*, 3 June 2009, CA79 &

[18] Mr Peter Robinson, Principal Adviser in the Social Policy Division, Treasury, *Committee Hansard*, 3 June 2009, E85;

[19] Mr Nigel Ray, Executive Director, Fiscal Group, Treasury, *Committee Hansard*, 3 June 2008, E85;

In her Second Reading Speech on these Bills the Minister for Health and Ageing stated in the House of Representatives that:

> *"It is estimated that approximately 25,000 people may no longer be covered by private health insurance hospital cover, and that it might therefore result in 8,000 additional public hospital admissions over two years. When considered against the fact that public hospitals have around 4.7 million admissions per year, the impact of the measure will be insignificant."*[20]

During Senate Estimates the question was put to the Department of Health and Ageing on how the Minister had derived that figure of 8,000 additional public hospital admissions over two years:

> ***Senator CORMANN**—Have you assessed the impact of this measure on public hospitals?*
> ***Ms Shakespeare**—We have had a look at that, yes.*
> ***Senator CORMANN**—Can you just talk us through how you went through that assessment and how you came to the conclusions you have reached.*
> ***Ms Shakespeare**—The figure of 25,000 people expected to drop their hospital cover is the starting point. There is Ipsos survey data that indicates 35 per cent of people will require hospital treatment over a two-year period. Using that data, we estimate that there may be up to an additional 8,000 presentations at public hospitals over a two-year period.*[21]

It is a matter of simple maths that 35 per cent of 25,000 equals 8,750. It is curious, and perhaps indicative of the government's overall attitude, as to why 8,750 was rounded down to 8,000 rather than round up to 9,000 public hospital admissions. Spin over substance invariably is the modus operandi of this Rudd Government.

Even more concerning is the impact on public hospital demand of last year's Medicare Levy Surcharge thresholds measure combined with this year's broken promise on private health insurance rebates.

The Rudd government's own budget estimates indicate that even twice watered down, the Medicare Levy Surcharge threshold changes eventually passed by the Senate in October 2008, will result in 492,000 fewer people with private health insurance.

If we apply the government's own methodology to its own numbers, that means about 181,000 additional public hospital admissions over two years as a direct result of last years and this years changes to private health insurance policy.

172,200 additional admission as a result of the changes to the Medicare Levy Surcharge thresholds last year (= 492,000 x 35%), plus the 8,750 additional admissions as a result of the broken promise on private health insurance rebates.

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[20] Hon Nicola Roxon MP, Minister for Health and Ageing, *House Hansard*, 27 May 2009, p.4435;

[21] Ms Penny Shakespeare, Assistant Secretary, Private Health Insurance Branch, Department of Health and Ageing, *Committee Hansard*, 3 June 2009, CA75;

Catholic Health Australia pointed out that:

> *"The analysis, by Access Economics, found the rebate and Medicare Levy Surcharge changes could stretch public hospital waiting lists by an additional 36,000 people who would otherwise have been treated in private hospitals."*[22]

And:

> *"When you combine the number of people likely to forgo their insurance as a result of this new change and last year's changes, we will see 600,000 fewer people insured than would otherwise been the case… This means some 216,000 extra admissions to public hospitals."*[23]

Government Senators suggested that additional funding commitments announced at COAG would offset the impact of this measure on public hospitals. That is completely disingenuous of course given that those funding increases were to deal with pre-existing demand pressures unrelated to either last year's changes to the Medicare Levy Surcharge or this year's proposed changes to the rebates.

IMPACT ON PRIVATE HOSPITALS

Policy changes like the Rudd government's broken private health insurance rebate promise have to potential to have significant flow-on consequences for the private hospital sector.

In recent years private hospitals have absorbed a significant proportion of the growth in demand for hospital services as a result of the growth in private health insurance participation rates.

Private hospital operators expressed serious concern to the Committee about the impact of sovereign risk given the approach taken by the Rudd government on measures like this one.

Dr Shane Kelly, CEO of St John of God Subiaco told the Committee that recent policy changes had left them with *"a lack of confidence going forward for capital investment in private facilities"*[24].

He expanded further in this exchange:

> ***Dr Kelly**—Clearly our ability to invest in capital to continue to provide the services in contemporary facilities and to expand those services to meet*

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[22] Catholic Health Australia, Media Release, *Waiting lists to grow: 216,000 extra public hospital admissions expected*, 12 June 2009;

[23] Catholic Health Australia, Media Release, *Waiting lists to grow: 216,000 extra public hospital admissions expected*, 12 June 2009;

[24] Dr Shane Kelly, CEO, St John of God Hospital Subiaco, *Committee Hansard*, 10 July 2009, CA34;

demand is reliant on how well our business is tracking. If we get to the point where we do not have sufficient capital to invest in capital, then obviously we cannot do that.

***Senator CORMANN**—In that context, perhaps you can talk us through the experiences, as far as you are aware of them, of the private hospital sector in Western Australia in the eighties and early nineties in terms of utilisation and viability as compared to what they are now. And perhaps you could look forward—what the impact is likely to be if changes like this continue to be introduced.*

***Dr Kelly**—The private hospital sector was in dire straits in the mid- to late eighties and, really, capital investment was unheard of. There was not really the possibility or opportunity to invest or reinvest, and it was only the trilogy of changes to private health insurance that reinvigorated the industry and enabled it to once again invest in contemporary facilities. There has been considerable investment. For example, St John of God Health Care, even at my campuses, made a very substantial investment in upgrading the hospital and providing services to Western Australians, something that is now in doubt for the future.*

Mr Michael Roff, Chief Executive Officer of the Private Hospitals Association put it this way:

> *"A range of service planning and infrastructure development decisions have been made by private hospital operators in both the for-profit and not-for-profit segments of the sector on the basis of the repeated commitments given by the government that they would maintain the current policy settings. If these legislative proposals proceed for developments planned but not yet underway, there are now doubts over whether they will go ahead. For those already underway, there are now doubts over whether they will prove to be viable."*[25]

In short, implementing these changes would undermine confidence in the private hospital sector. This will affect investment in new and refurbished facilities, new medical and other capital investment, and staffing.

A BETTER ALTERNATIVE – INCREASE EXCISE ON TOBACCO

Instead of pursuing its broken promise on private health insurance rebates, the government should support the Coalition proposal to increase the excise on tobacco as a better more positive alternative measure for our health system.

Increasing the excise on tobacco by 12.5% instead of means testing private health insurance rebates would have a positive rather than a negative impact on our health system.

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[25] Mr Michael Roff, Chief Executive Officer, Australian Private Hospitals Association, *Committee Hansard,* 8 July 2009, CA13;

Clearly it would have a positive public health effect, it would lead to less pressure on public hospitals not more, it would not force millions of Australians to pay between 14.3 and 66.7 per cent more for their private health insurance and it would have a $300 million positive effect on the budget bottom line over the forward estimates period[26].

Indeed Treasury confirmed during Senate Estimates on 2 June 2009 that the proposal to increase the tobacco excise by 12.5 per cent would more than offset the expected savings from means testing private health insurance rebates.

Treasury confirmed that a 12.5% increase in the excise on tobacco would raise $2.2 billion over the forward estimates, which would more than offset the $1.9 billion estimated saving from means testing private health insurance rebates over the same period.

The analysis the government asked for assessing the Coalition proposal over a ten year period was exposed during Senate Estimates as completely deficient.

The Treasury analysis quite reasonably assumes that consumption of tobacco would go down over a ten year period if the measure was to go ahead. While that assumption was fed into the ten-year revenue forecast, no assessment was done of any related health savings over the same period.

Officials confirmed that the government did not ask Treasury to assess the obvious public health benefits of a reduction in smoking or any related savings for our public health system.

The government dismissed those public health benefits and related savings for our public health system as ‘second round effects’. As if, over a ten year period, beneficial second round effects are somehow irrelevant.

It is completely unbelievable that the Government never asked Treasury to consult with the Health Department in finalising their advice on the Coalition's alternative proposal to increase taxes on tobacco.

And while the government has provided a copy of Treasury's analysis to selected media outlets on 17 May 2009[27] (no doubt to help push a political line), the copy of that advice has still not been provided to the Senate Economics Committee for scrutiny. That is despite a specific request on notice on 2 June 2009. Specific answers to specific questions on notice and what appears to be a selective extract from the Treasury analysis was provided to the Senate Economics Committee. Why is the

[26] Treasury Evidence, *Committee Hansard*, 2 June 2009, E105-E110;

[27] Note for example the story in The Australian by Lenore Taylor and Siobhain Ryan on 18 May 2009 on page 1, *Private health calculations up in smoke – Shortfall in Turnbull health tax alternative;*

government refusing to provide a copy of the advice given to the media? What has the government got to hide?

PROCESS CONCERNS

No consultation with the States and Territories

Before the last election the Prime Minister committed that he 'would end the blame game' and that he would ensure a new era of 'cooperative federalism in health'.

The Rudd government has now introduced major changes to the private/public health balance with serious implications for State and Territory governments without any consultation.

The States and Territories are expected to improve the performance of their public hospitals, yet the Rudd government keeps shifting more demand to public hospitals that are already under significant pressure.

Industry stakeholders were misled

Private health industry stakeholders, along with more than eleven million privately insured Australians were seriously mislead by the Rudd government.

Submissions for rate change applications by health funds, planning for future infrastructure and workforce requirements by hospitals, are but some of the decisions which were erroneously based on the Rudd government's firm commitments before and after the election that the existing private health insurance policy framework would be maintained.

The first the industry heard about the government's change in direction was when the Minister for Health and Ageing called stakeholders on the Thursday night before the budget to let them know that a story in the paper the next day about a government plan to means test the private health insurance rebates was in fact correct[28].

Mr Roff from the Australian Private Hospitals Association told the Committee that *"these proposals constitute a fundamental breach of promise by the government"*.[29]

Dr Armitage from the Australian Health Insurance Association said *"we are disappointed. The explicit letter* (from the Prime Minister) *stated that there would be no change to the present system – it is still the present because it has not yet been*

[28] Dr Michael Armitage, Chief Executive Officer, Australian Health Insurance Association, *Committee Hansard,* 8 July 2009, CA1 and Mr Michael Roff, Chief Executive Officer, Australian Private Hospitals Association, *Committee Hansard,* 8 July 2009, CA14;

[29] Mr Michael Roff, Chief Executive Officer, Australian Private Hospitals Association, *Committee Hansard,* 8 July 2009, CA13;

legislated – of the rebate. We felt that that was, if you like, a cast-iron guarantee, so we are disappointed about that."[30]

No Regulatory Impact Statement

The government did not conduct a regulatory impact statement of this measure. The Prime Minister made a specific decision to exempt this particular measure from the requirement for a regulatory impact statement[31].

Why? Nobody was able to answer that question. It remains unanswered to this day.

Means testing private health insurance rebates will be complex and bureaucratic

Michael Roff from the Australian Private Hospitals Association put it best when he said:

> *"I think one of the key problems with it is the sheer complexity. We are now moving*
>
> *to a system with effectively 10 tiers. You have what I call tier zero which is where there is no change and then in each of the other three tiers different surcharges apply and different levels of rebate depending on age. I think one of the things that is going to happen is that this may lead to an increase in employment in the tax agency sector. People are going to need someone to explain to them exactly what it means if they fall within a particular income bracket and whether or not it is worthwhile to have health insurance and what sort of things they should consider. I think a lot of people are going to throw their hands up in the air and say, 'This is all too hard.' I know because I was involved in some of the discussions around the design of the original rebate scheme that one of the key considerations was to keep it simple. The administration of this scheme is going to be enormously complex. The tax office is receiving $60 or $70 million to administer it and tell people about it, how is the average punter supposed to react?*

CONCLUSION

This measure is bad public policy.

Any measure that puts additional pressure on public hospitals and will see fewer people take additional responsibility for their own health care needs is a bad measure.

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[30] Dr Michael Armitage, Chief Executive Officer, Australian Health Insurance Association, *Committee Hansard,* 8 July 2009, CA1 and Mr Michael Roff, Chief Executive Officer, Australian Private Hospitals Association, *Committee Hansard,* 8 July 2009, CA1;

[31] Ms Penny Shakespeare, Assistant Secretary, Private Health Insurance Branch, Department of Health and Ageing, *Committee Hansard,* 3 June 2009, CA68;

Yes this measure will have the most immediate impact on the 2.3 million Australians with private hospital insurance and incomes above $75k/$150k per annum. They will see the cost of their health insurance go up by between 14.3 and 66.7 per cent as a direct result of Labor's broken rebate promise.

However, all Australians will be negatively impacted in one way or another.

7.4 million Australians with private hospital insurance and incomes below the 'rebate reduction' thresholds will be faced with increased premiums to cover the cost flowing from those downgrading their cover or leaving private health altogether.

Those without private cover will have to compete for access to public hospital care with the increasing number of those no longer covered by the private system.

This is yet another step in the wrong direction. It was a step the government promised before the election they would not take.

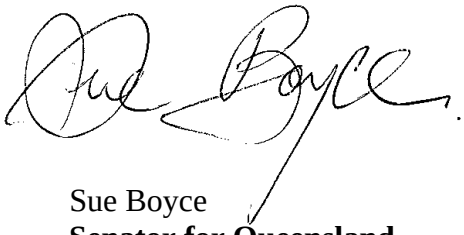
Instead of fixing public hospitals, Labor has been distracted by its ideological agenda against private health – even though it is putting more pressure on public hospitals not less.

Recommendation

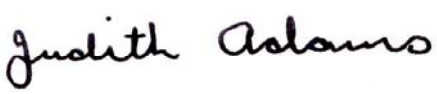
That the Senate:

1) Reject the legislation implementing the government's broken private health insurance rebate promise;
2) Urge the government to increase the excise on tobacco by 12.5 per cent as an alternative to means testing private health insurance rebates.

Mathias Cormann
Senator for Western Australia



Sue Boyce
Senator for Queensland



Judith Adams
Senator for Western Australia

John Williams
Senator for New South Wales